



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
OFFICE OF FINANCIAL AND INSURANCE SERVICES
DEPARTMENT OF LABOR & ECONOMIC GROWTH
KEITH W. COOLEY, DIRECTOR

LINDA A. WATTERS
COMMISSIONER

DATE: May 21, 2007

LETTER NO.: 2007-CU-04

TO: The Board of Directors and Management of Michigan State-Chartered Credit Unions

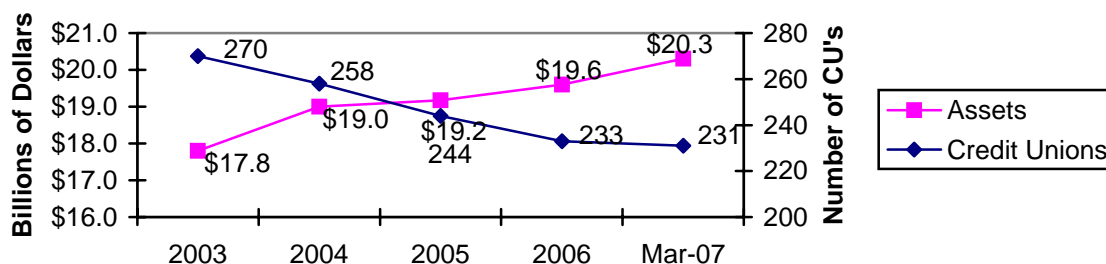
SUBJECT: 2007 First Quarter Financial Results

The purpose of this letter is to share some overall industry trends and highlight certain areas of particular concern based on the March 31, 2007 call report filings. The following information and analysis does not include CenCorp Credit Union.

Consolidation Continues

The number of Michigan state-chartered credit unions continued to decline as two more institutions merged out during the first quarter of 2007. Asset growth was strong at 13.75% (annualized) during the first quarter of 2007. The number of credit unions reporting a decline in assets greater than 5% declined from 48 at December 31, 2006 to 19 at March 31, 2007. Total assets held by Michigan state-chartered credit unions grew by \$675 million during the first quarter of 2007 (Figure 1).

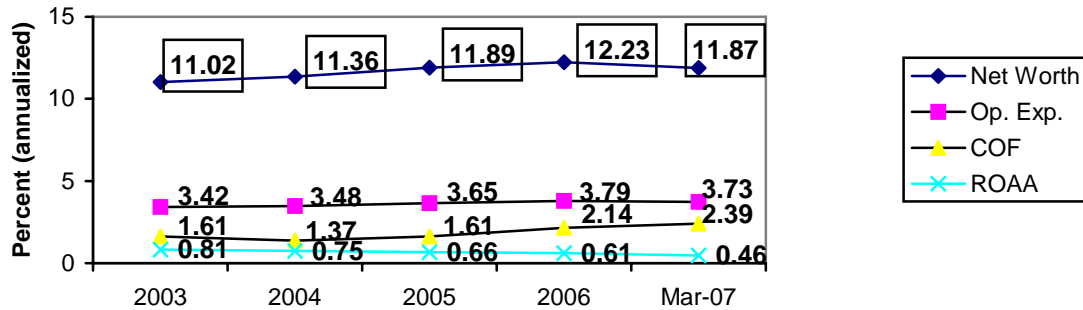
Figure 1



Net Worth and Earnings Impacted by Significant Deposit Growth

Net worth declined from 12.23% of total assets at December 31, 2006 to 11.87% at March 31, 2007. The return on Average Assets declined from 0.61% to 0.46% (annualized) during the same period. Gross income and operating expenses remained stable, while cost of funds increased 25 basis points during the first quarter (Figure 2).

Figure 2



The declining aggregate net worth and ROAA ratios can be attributed to a sharp increase in deposits and, correspondingly, in total assets. The net interest margin continues to narrow. The nearly 14% annualized growth rate in assets was funded by a 17% annualized growth in deposits, while loan volume fell nearly 4%. The slight increase in gross income was outpaced by the increased cost of funds. A significant amount of the liquidity gained from the drop in loan volume and deposit growth was held in cash or equivalents at corporate credit unions or other financial institutions.

Asset Quality Remains Sound

Delinquency declined slightly from 1.14% to 1.10% during the first quarter of 2007. Credit unions reporting net charge-offs greater than 1.5% of average loans decreased by 7 to 17 at March 31, 2007.

Conclusion

Overall, the financial condition of Michigan state-chartered credit unions remains strong. Directors and management teams must monitor the financial condition of their credit union on an ongoing basis. Sound risk management includes timely identification of potential risks and adverse trends, and exercising appropriate due diligence to ensure risks are properly managed.

I hope the information in this letter is helpful in making informed business decisions. Operating a financial institution safely and soundly requires diligence in risk identification, measurement, and management.

Sincerely,

Roger W. Little, Deputy Commissioner
Credit Union Division